



Chapter

8

Installment Payments Through Payroll Deduction

Conditions of the Installment Payment Program

Entering into an Installment Agreement

Employer Remittance of Installment Payments to KTRS

Suspension of Installment Agreement Payments

Terminating Payroll Deduction Program Agreements

Payroll Deduction Program Completed Agreements

Report of Installment Payments Form

EMPLOYER RESPONSIBILITIES

The installment program requires that:

- employers return the signed installment agreement to KTRS;
- employers transmit the amounts deducted from the member's salary to KTRS;
- employers remit the member's installment payments by the start date specified in the agreement;
- employers notify KTRS if a member with an installment payment agreement is no longer employed; and
- that employers stop deductions from employee's salaries when the installment agreement has been satisfied.

Members with installment agreements to purchase service credit or to repay refunded service credit may make payments to KTRS with after-tax dollars via payroll deduction. Members may request that their employer make payroll deductions to remit their required payments under the terms of the contract if the member does not choose to have the payments remitted by bank draft.

Employers will be required to transmit the amounts deducted from the member's salary to KTRS.

Because these payments are after taxes, there are no records for state and federal tax reporting purposes that are the responsibility of the employer.

CONDITIONS OF THE INSTALLMENT PAYMENT PROGRAM

State and federal laws require the installment payment program to meet the following conditions:

- A member in active contributing status may purchase any service credit that the member is authorized to purchase by making installment payments in lieu of a lump-sum payment.
- To initiate an installment payment plan, the member must make a written request to KTRS for an estimate to purchase service credit by making installment payments.
- The installment agreement must require that the cost of service credit being purchased be at least one thousand dollars (\$1,000).
- Installment payments must be at least fifty dollars (\$50) per month and must be for a period of time not less than twelve (12) months or more than sixty (60) months.
- A member who selects service credit to be purchased by installment payments must fully pay for the current service credit being purchased before any other service credit can be purchased by installment payment.
- Installment payments will be made by payroll deduction or electronic fund transfer (bank draft) and forwarded separately to KTRS on "Report of Installment Payment" forms (see attachment) or by computer format no later than fifteen (15) days following the end of each month. The payments will be considered accumulated contributions and will not be picked up as provided in KRS 161.560.
- A member may elect to terminate payroll deductions at any time and purchase the remaining service credit with a lump-sum payment. Termination of employment in a KTRS-covered position will terminate installment payments. A member on a leave of absence may make personal installment payments via bank draft. If a different employer, in another covered position, subsequently employs the member, the member may reinstate the installment

payments. A member who misses two (2) consecutive installment payments will be in default. A member in default shall receive service credit on a pro rata basis for the total principal paid by installment payments, lump sum, or rollover. A member in default may not reinstate installment payments for twelve (12) months from the date the member was in default. However, installment agreements reinstating withdrawn accounts that have been defaulted can only be paid off with a lump-sum payment.

- If a member dies before completing scheduled installment payments, the named beneficiary of the member's retirement account may pay the remaining balance due by a lump-sum payment within thirty (30) days of the death of the member.

ENTERING INTO AN INSTALLMENT AGREEMENT

To participate in this program, the member must first establish an installment agreement with KTRS. An installment agreement may be established with KTRS if the member is eligible to purchase service credit or repay refunded service. Not all types of service credit are eligible for installment agreements.

When the member contacts KTRS about payroll deduction for installment agreement payments, KTRS will provide the member with information about repayment through payroll deduction along with various payment options. At the time the member elects to participate in this program, KTRS will prepare and forward to the member an Installment Service Purchase Agreement based on the member's instructions. After signing the agreement, the member will forward it to the employer for acceptance and signature. (See sample agreement at end of chapter.)

Note: When the employer signs an installment agreement, the employer must begin remitting the member's installment payments by the start date specified in the agreement. Installments are very similar to loans in that the payments must be received timely or interest continues to accumulate and more payments may be necessary to repay the agreement. Also, for nine-month employees, monthly payments must continue each month of the summer break.

The employer should review the agreement and verify the following information:

- The agreement has been signed and dated by the member and presented to the employer before the specified start date.
- The employer name and number as shown on the agreement are correct. If not, the correct employer name and/or number should be indicated on the bottom portion of the agreement.
- That the member's salary is sufficient to cover the monthly deduction and the deduction is at least \$50.
- The member is employed full-time.
- The member's payroll cycle is correct.

If all of the above information on the agreement is correct, the employer must sign the agreement and return the KTRS copy with the signatures of the member and employer to KTRS. This serves as notification that the member is participating in the payroll deduction program. The KTRS copy should be returned before the start date of the agreement and before taking any deductions.

If the monthly deduction amount or the payroll cycle has been changed, or the member has presented

the agreement to you after you have run payrolls for the first month of an agreement, return the agreement to the member and advise them to contact KTRS for a new Installment Service Purchase Agreement.

The member may cancel the installment agreement at any time by written notification. The member will receive service credit on a pro rata basis for the principal paid with installment payments.

EMPLOYER REMITTANCE OF INSTALLMENT PAYMENTS TO KTRS

As the employer, you are responsible for remitting to KTRS each month the total amount deducted from the participating members' salaries. This amount is due to KTRS within 15 days following the payroll date in which the deduction was made. You can remit these payments to KTRS by check or if you are participating in the KTRS EFT program, you are required to remit these payments electronically via the EFT system. See Chapter 4 for more information about the EFT program.

If you remit by check and have members who are enrolled in the payroll deduction program, you will receive a supply of remittance forms each fiscal year (one for each month, see next example) entitled "Report of Installment Payments." Use these forms to send in your monthly payments along with your R-1 forms. If you need more of these forms, they can be obtained via our website, www.ktrs.org/resourceEmp.htm. Select "Installment Form" from the list of forms.

Regardless of the remittance method used, please follow these guidelines:

- Remit the total amount owed for all participating members along with the "Report of Installment Payments" form and list the members and the amount of their payments.
- Do not send payments for a member before the member's enrollment date.
- If you generate July and August payroll checks in June, members who are paid over 12 months may receive their July and August payroll checks in June, or they may receive their July and August payroll checks in July and August. The remittance for the deductions from the July payroll checks is due to KTRS by August 10, and the remittance for the deductions from the August payroll checks is due to KTRS by September 10, regardless of when the deductions are taken. Do not prepay these amounts to KTRS. Deductions are based on the irrevocable payroll deduction agreement and are not related to the teaching contract or to when the salary is actually paid.

SUSPENSION OF INSTALLMENT AGREEMENT PAYMENTS

If a member is not receiving salary from the employer and is promised renewed employment at the end of the period or has the right of re-employment, the payments can be continued by the member via bank draft. An example of this situation would be a teacher going on a leave of absence or on temporary disability for a year or less. A member on a leave of absence may make installment payments by bank draft. Please notify KTRS if either this type of situation occurs or the member's status changes.

TERMINATING PAYROLL DEDUCTION PROGRAM (PDP) AGREEMENTS

Termination of PDP agreements occurs when all required payments have been made; upon the death, disability, or retirement of the member; or upon termination of the member's employment with the employer who entered into the agreement. As the employer, you should not make any payroll deductions after a member's retirement date or termination date. For example: Your school year ends on June 7. A teacher terminates or retires effective at the end of school on June 7. Your first payroll in June is run on June 14. Because the teacher's June 7 termination or retirement ended his or her payroll deduction agreement before the June 14 payroll run, you should not make any deductions under the agreement from the payroll run on June 14. The last deduction should be in May.

If you run your June, July, and August payrolls in June on or before the teacher's June 7 retirement or termination date, the **full** monthly deduction for **June** should be taken from the teacher's check and remitted to us by July 10; do not deduct for July and August. The June deduction should be made regardless of when the paychecks are issued to the teacher, the number of checks the teacher actually receives, or what dates the checks actually cover. Federal law requires that the **full** June monthly amount be remitted.

It is important that you notify KTRS when a death, disability, retirement, or termination of the member's employment occurs to end a member's payroll deduction agreement. If any of these situations occur, please contact KTRS at (800) 618-1687.

PAYROLL DEDUCTION PROGRAM COMPLETED AGREEMENTS

Approximately one to two months before the completion of the member's payroll deduction agreement, KTRS will notify you and the member of the final payment due dates and the amounts. As the employer, you are responsible for discontinuing the payroll deduction when the member's balance with KTRS is paid in full. It is important that you follow the information in the final payment letter.

